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## Summary

Because the public interest benefits of maintaining the current accounting rules for mid-sized LECs, at a time when their provision of competitive services is likely to increase substantially, outweigh the cost of continued application of these rules, the Commission should not adopt the proposals in the Notice at this time. The existing accounting rules and CAM audit requirements ensure that interstate ratepayers do not bear the cost of mid-sized LECs' nonregulated activities, and are necessary for the Commission to ensure that the mid-sized LECs are in compliance with Section 254(k)'s mandate that "a telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition." Further, Class A accounting provides the Commission with essential tools for conducting tariff investigations and monitoring the development of local competition.

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554**

<b>In the Matter of</b>	)	
	)	
<b>1998 Biennial Regulatory Review --</b>	)	<b>CC Docket No. 98-81</b>
<b>Review of Accounting and Cost</b>	)	
<b>Allocation Requirements</b>	)	
	)	
<b>United States Telephone Association</b>	)	<b>ASD File No. 98-64</b>
<b>Petition for Rulemaking</b>	)	
	)	

**MCI COMMENTS**

MCI Telecommunications Corporation (MCI) hereby submits its comments on the Notice of Proposed Rulemaking in the above-captioned docket.<sup>1</sup> In the Notice, the Commission asks for comment on proposals to relax accounting rules for Class A LECs other than the Bell Operating Companies and the GTE operating companies.

The Commission proposes two accounting rule changes that would affect mid-sized LECs. First, the Commission proposes to permit mid-sized LECs to use Class B accounts, not the more detailed Class A accounts.<sup>2</sup> Second, the Commission proposes to relax CAM filing requirements for these mid-sized carriers. Mid-sized carriers would be permitted to submit their CAMs based on the Class B system of accounts, would be

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<sup>1</sup>1998 Biennial Regulatory Review -- Review of Accounting and Cost Allocation Requirements, CC Docket No. 98-81, FCC 98-108, released June 17, 1998 (Notice).

<sup>2</sup>Notice at ¶4.

permitted to obtain an audit every two years instead of annually, and would be permitted to obtain an "attest" audit, not the more stringent "positive opinion" audit currently required by the Commission's rules.<sup>3</sup>

The Commission believes that it can relax the accounting rules for mid-sized carriers because it has "had sufficient experience with carriers of different size to conclude tentatively that we can maintain the necessary degree of oversight and monitoring while imposing less administratively burdensome accounting requirements on the mid-sized carriers."<sup>4</sup> The Commission has reached this conclusion because it has "generally found that mid-sized carriers typically conduct a lower volume of transactions involving competitive products and services than the large incumbent LECs, thus providing easier monitoring and oversight because there are fewer opportunities for these mid-sized carriers to subsidize competitive services with the revenues earned from the provision of competitive services."<sup>5</sup>

The Commission's stated rationale for relaxing its accounting rules -- that mid-sized LECs have typically conducted a lower volume of transactions involving competitive products and services -- does not justify the proposed change in course. In evaluating the accounting safeguards necessary to guard against cost-shifting and cross-subsidization by mid-sized carriers, the Commission should not be looking at mid-sized

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<sup>3</sup>Id. at ¶¶10-11.

<sup>4</sup>Id. at ¶5.

<sup>5</sup>Id.

LECs' past levels of nonregulated and competitive activities, but at the likely level of such activities in the future. Even if were true that mid-sized LECs have, in the past, typically conducted a lower volume of transactions involving competitive products and services, all evidence indicates that the level of such activity is likely to increase substantially in the near future. Mid-sized LECs such as SNET are engaged in a growing range of activities beyond traditional regulated telephone service.

The Commission should not relax its accounting safeguards at a time when mid-sized LEC provision of competitive services is likely to increase substantially. In particular, the Commission should not adopt its proposal to decrease the frequency of the CAM audit and permit a less stringent audit. As the Commission stated in the Joint Cost Order and Joint Cost Reconsideration Order, the requirement for an annual positive opinion audit is "an indispensable factor in [the Commission's] ability to enforce the rules [the Commission] established."<sup>6</sup>

Furthermore, the Commission should not adopt its proposal to permit mid-sized LECs to use Class B accounts.<sup>7</sup> Abandoning Class A accounting will limit the Commission in several ways. First, the Commission will lose a significant amount of

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<sup>6</sup>In the Matter of Separation of Costs of Nonregulated Telephone Service from Costs of Nonregulated Activities, Order on Reconsideration, 3 FCC Rcd 6283, 6304 ¶184 (1987) (Joint Cost Reconsideration Order); In the Matter of Separation of Costs of Nonregulated Telephone Service from Costs of Nonregulated Activities, Report and Order, 2 FCC Rcd 1298, 1330 ¶254 (1987) (Joint Cost Order).

<sup>7</sup>If the Commission does adopt this proposal, it should make clear that any mid-sized carrier subsequently acquired by an RBOC or GTE will be required to use Class A accounting.

cost and revenue detail that has proven invaluable in tariff investigations. Less than a year ago, the Commission used Class A accounting detail in determining that the rates proposed by certain price cap LECs were unreasonable.<sup>8</sup> Second, as the Commission discusses in the Notice, “[t]he level of detail of the Class A accounting rules allows [the Commission] to identify potential cost misallocations beyond those revealed by the Class B systems of accounts.”<sup>9</sup> Third, the Commission and state regulators have, in the recent past, relied on Class A accounting to improve cost allocations,<sup>10</sup> determine pole attachment fees,<sup>11</sup> and estimate ILECs’ avoided costs of providing wholesale services.<sup>12</sup> Without Class A accounting, the Commission could not develop similar formulas in the future. Fourth, the highly aggregated local service revenue reporting under Class B accounting would limit the Commission’s ability to track competitive changes in the local markets served by mid-sized LECs. In particular, the Commission could not see

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<sup>8</sup>In the Matter of 1997 Annual Access Tariff Filings, Memorandum Opinion and Order, CC Docket No. 97-149, rel. December 1, 1997, at ¶183 (The Commission examined billing and collection revenues, a Class A account, in determining that Pacific Bell and GTE’s proposed rates were unreasonable.)

<sup>9</sup>Notice at ¶6.

<sup>10</sup>In the Matter of Access Charge Reform, Third Report and Order, CC Docket No. 96-262, rel. November 26, 1997.

<sup>11</sup>Notice at ¶7.

<sup>12</sup>In the Matter of Local Competition Provisions in the Telecommunications Act of 1996, First Report and Order, rel. August 8, 1998, at ¶¶898-906, 917-918.

changes in basic area revenue disaggregated from extended area revenue, cellular revenue, local private line revenue, and other revenue sources.<sup>13</sup>

The Notice overstates the costs associated with maintaining Class A accounting and current CAM requirements for mid-sized LECs. Because the mid-sized LECs have been using the current USOA Class A account system for over a decade, and have substantially automated their internal accounting and cost allocation systems,<sup>14</sup> the cost of continuing to use Class A accounting is minimal. In addition, as the Commission observes in the Notice, all incumbent LECs, including mid-sized LECs, maintain their financial records in significantly more detail than that required for Class A carriers under the Commission's Part 32 rules, for managerial decision-making and other purposes.<sup>15</sup>

Because the public interest benefits of maintaining the current accounting rules for mid-sized LECs, at a time when their provision of competitive services is likely to increase substantially, outweigh the cost of continued application of these rules, the Commission should not adopt the proposals in the Notice at this time. The existing accounting rules and CAM audit requirements ensure that interstate ratepayers do not

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<sup>13</sup>47 C.F.R. §32.5000-5069.

<sup>14</sup>See In the Matter of Implementation of the Telecommunications Act of 1996, Report and Order, CC Docket No. 96-150, rel. December 24, 1996 at ¶75. (The Commission found that treating interLATA telecommunications services as nonregulated would not impose extensive expense upon local exchange carriers "[b]ecause incumbent local exchange carriers have internal accounting systems in place to allocate costs fairly between nonregulated activities and regulated services provided on an integrated basis.")

<sup>15</sup>Notice at ¶5.

*MCI Comments, July 17, 1998*

bear the cost of mid-sized LECs' nonregulated activities, and are necessary for the Commission to ensure that the mid-sized LECs are in compliance with Section 254(k)'s mandate that "a telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition."<sup>16</sup> Further, as discussed above, Class A accounting provides the Commission with essential tools for conducting tariff investigations and monitoring the development of local competition.

Respectfully submitted,  
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July 17, 1998

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<sup>16</sup>47 U.S.C. § 254(k).



STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on July 17, 1998.



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## CERTIFICATE OF SERVICE

I, Sylvia Chukwuocha, do hereby certify that copies of the foregoing Comments were sent via first class mail, postage paid, to the following on this 17th day of July, 1998.

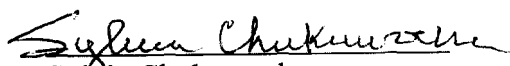
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